# Power of Budgeting for Teens

# Agenda

# Workshop goals

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- Explore short- and long-term goal setting
- Discuss how to budget
- Examine different bank accounts and payment methods
- Learn about credit




# What is budgeting and why is it important?

- A budget is an estimate of how much you will spend and earn over a certain amount of time.
- When you create a budget, you're making a plan for how to spend and save your money.

**Budgeting well can help you:**

- Have money prepared for an emergency
- Purchase things you need and want

**And it can make sure you don't:**

- Spend more than you earn
- Or have a lot of debt

# Why should you budget?

- Become financially independent in the future
- Manage finances well (a common stressor for young adults)
- Be in better financial shape
  - Having money when you retire
  - Having money for emergencies
  - Having less debt compared to your income

# Goal types

- Budgets can help you reach your financial goals.
- Financial goals are personal goals you set for yourself related to finances, and there are 3 types.

Short-term financial goals can be accomplished within one year.

Medium-term financial goals can be accomplished in up to five years.

Long-term financial goals can be accomplished in more than five years.

# What's a SMART goal?

**SMART stands for Specific, Measurable, Achievable, Relevant & Timely.**

Specify your goal

Make it measurable

Assess its achievability

Reflect on its relevance

Consider the timeliness of the goal

# SMART goal example

## Does this goal meet the SMART standards?

I want to save more for a new phone before my next birthday.

# SMART goal example (cont.)

**If Jasmine would have written out her goal like this, it would have been much better aligned to SMART goal standards.**

**I want to save $750 for a new phone by my next birthday in 10 months.**

# Budgeting with the 50/30/20 rule

## Savings & debts 20%

- Pay for college
- A retirement account
- Paying off debt you owe, such as car loans

## Wants up to 30%

- Lattes
- Going to the movies
- Buying a video game


## Needs up to 50%

- Groceries
- House or apartment payments
- Phone bill
- Transportation expenses

# Helping Madison budget

# Meet Madison

- Part-time employee: makes $150/week
- Needs: Mom pays for these things
- Goal: Save $10,000 for college in 2 years

**What's a good way for Madison to adjust her budget?**

A) Should she put it all in savings?

B) Should she use half of it for wants and half for savings?

C) Or should she use 30% for wants and 70% for savings?

# Answer A:
# All Madison's money in savings

- Madison saves $15,600 for her goal
- She misses out on movie nights with friends

It's great to save money when you can, but it's a realistic idea to earmark money for spending too.

# Answer B:
# Half for wants and half for savings

- Madison saves $7,800 for her goal
- She could have saved more

Extra money is best put toward savings goals.

# Answer C:
# 30% for wants and 70% for savings

- Madison saves $11,700 for her goal
- She follows the 50/30/20 budget method

Madison is balancing her budget well to manage her life and financial goals.

# Introduction to bank accounts

# Types of bank accounts and budgeting

## Checking account

Keep money for day-to-day expenses here.

You can access your money by:

- Getting cash from an ATM or the bank itself
- Using a bank-issued debit card
- Or by writing checks

## Savings accounts

Keep the money you save here.

Money in a Savings Accounts can:

- Be stored up to help pay for a future goal of yours—like a down payment on a car.
- Be a secure spot for extra money to use in the case of an emergency
- Grow with interest

Interest is the money you either owe when borrowing or are paid when lending money.

**Technology:** Check your balance anytime & keep track of your finances online or with a banking app.
Keep in Mind: If you're younger than 18, you may need a parent or guardian to co-sign when you open an account.

# Saving terms defined

### Principal

This is the initial amount of money you're saving. The amount of interest you're paid is based on this amount.

### Interest rate

In savings, an interest rate is the price a financial institution, like a bank, pays you. This rate is usually shown as an annual percentage of the amount you save.

### Simple interest

This is interest earned on the Principal amount of money you deposited.

### Compound interest

This is interest earned on the Principal amount plus interest you've already earned.

# Compare: Simple and Compound interest

**You decide to open a savings account at your local bank with $100. You have 2 options.**

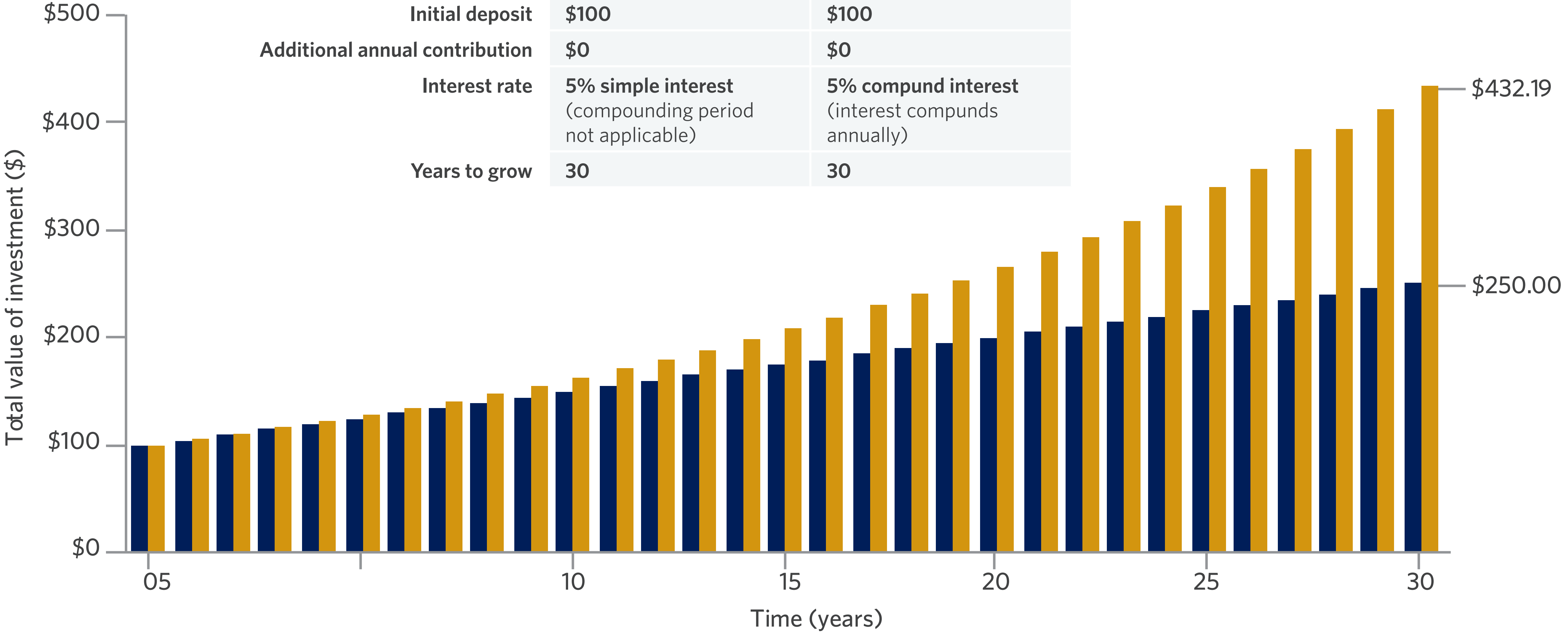
1) An account with a 5% simple interest rate or 2) An account with a 5% compounded interest rate. Which will generate the most money in this scenario?

## Example

| | Simple interest | | Compound interest | |
|---|---|---|---|---|
| Initial deposit | **$100** | +$5.00 | **$100.00** | +$5.00 |
| after 1 year | **$105** | +$5.00 | **$105.00** | +$5.25 |
| after 2 years | **$110** | +$5.00 | **$110.25** | +$5.51 |
| after 3 years | **$115** | +$5.00 | **$115.76** | +$5.79 |
| after 4 years | **$120** | +$5.00 | **$120.55** | +$6.08 |
| after 5 years | **$125** | +$5.00 | **$125.63** | |
| | same amount of interest every year | | increasing amount of interest every year | |

# Compare: Simple and Compound interest (cont.)

| | Simple interest | Compound interest |
|---|---|---|
| **Initial deposit** | **$100** | **$100** |
| **Additional annual contribution** | **$0** | **$0** |
| **Interest rate** | **5% simple interest** (compounding period not applicable) | **5% compund interest** (interest compunds annually) |
| **Years to grow** | **30** | **30** |



# Helping James use his accounts wisely

Helping James use his accounts wisely

# Meet James

- Has a checking and a savings account
- Part-time employee
- Has expenses and enjoys hanging out with friends

**What should James do?**

A) Should he go to the concert?

B) Or should he save for a new laptop instead?

# Answer A:
# James goes to the concert

**Result:**

Push back his goal to purchase a laptop

**Decision:**

James wants a T-shirt. Should he check his account balance before he buys the shirt or just hurry and make the purchase?

C) Don't keep his friends waiting — make the purchase

D) Check his account first

# Answer B:
# James saves for the laptop

**Result:**

- Priorizes his goal for a laptop

**Decision:**

- James wants a T-shirt. Should James check his account balance before he buys the shirt or just hurry and make the purchase?

C) Don't be late for class — make the purchase

D) Check his account balance first

# Answer C: James buys the T-shirt

**Result:**

- Buys the shirt with his debit card
  - Overdraft fee due to lack of funds
- Transfers money between accounts
- Has to buy a new laptop shortly after
  - Limit spending

# Answer D: James checks his balance on his phone

## Result:

- Doesn't buy the shirt
  - Avoids an overdraft fee
- Is better prepared for his goal to buy a new laptop

# Introduction to credit

# Credit terminology

### Credit

You borrow money and promise to repay it at a later date. You may also owe interest on the money you borrow.

### Interest

The interest you owe on credit works similarly to interest you earn on savings accounts.

### Debt

Debt is the amount of money borrowed, including any interest and fees. This is the money you are responsible for paying back within a specified amount of time.

# Using credit: Making payments

**Pay off entire balance:**

- No interest or fees

**Pay the minimum amount:**

- Interest owed

**Pay nothing or less than the minimum amount:**

- Interest & fees owed

# Credit cards and minimum payments

**New balance ........................................ $1,786.00**

**Minimum payment due ........................................ $53.00**

**Payment due date ........................................ 12/13/XX**

**Late payment warning:** If we do not receive your minimum payment by the date listed above, you may have to pay a $35 fee and your APR may be increased up to the penalty rate of 28.99%.
**Minimum payment warning:** If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance.

## For example:

| If you make no additional charges using this card and each month you pay ... | You will pay off the balance shown on this statement in about ... | And you will end up paying an estimated total of |
|---|---|---|
| Only the minimum payment → | 8 years → | $2,785 |
| $62 → | 3 years → | $2,232 (Savings = $533) |

*Source: Edward Jones and federalreserve.gov. Example is for illustrative purposes only.

# When to use credit

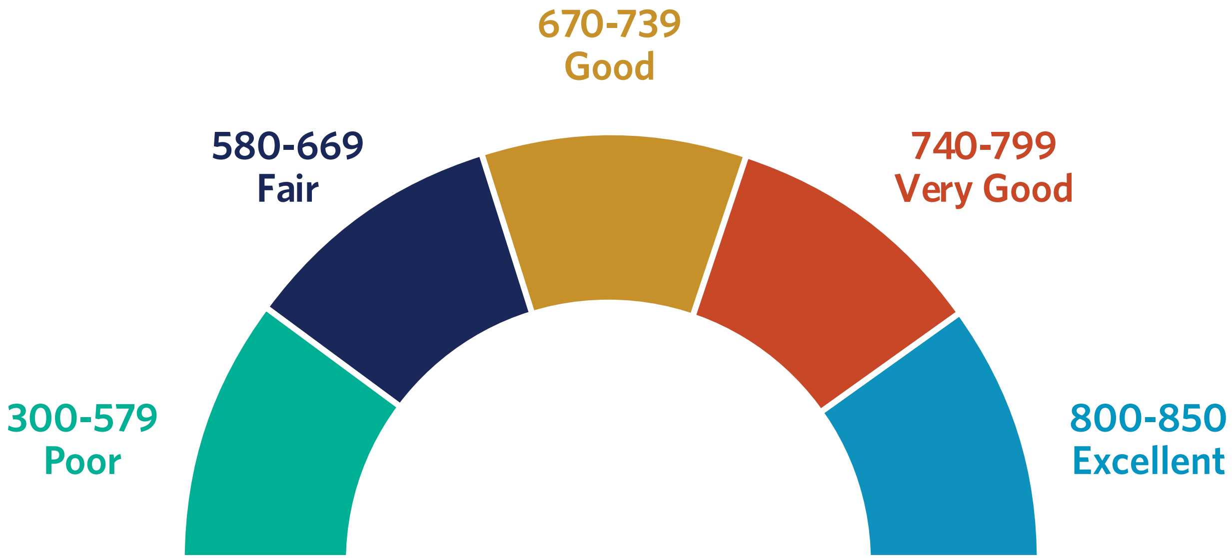
## Use credit if ...

- You have an emergency or can't afford a need
- You want to build up your credit score by using credit responsibly

# Credit score

## Your credit score is:

- Established by borrowing money
- Falls between 300 and 850
- Evaluates creditworthiness




# Helping Camila make credit decisions

# Meet Camila

- Saved responsibly for a ski trip
- Last-minute expenses have come up

**Based on our options below, what should Camila do?**

A) Pay for all these expenses on her credit card?

B) Or limit her spending and only pay for needs?

| | |
|---|---|
| **Credit Card balance pre-trip** | $0 |
| **Bank Account** | $400 |

| **New trip expenses** | |
|---|---|
| New coat | $150 |
| Souvenirs | $100 |
| Expensive dinner | $125 |
| Rideshare/Transportation | $150 |

# Answer A: Camila adds all the expenses to her card

| | |
|---|---|
| **Credit Card bill** | $525 |
| **Bank Account** | $400 |

| **New trip expenses** | |
|---|---|
| New coat | $150 |
| Souvenirs | $100 |
| Expensive dinner | $125 |
| Rideshare/Transportation | $150 |

**Result:**

- Pays minimum balance, owes interest
- Had to limit future spending

# Answer B: Camila limits her spending

**Result:**

- Pays entire bill, no fees or interest charged
- Has funds for day-to-day expenses

| | |
|---|---|
| **Credit Card bill** | $275 |
| **Bank Account** | $400 |

| **New trip expenses** | |
|---|---|
| Expensive dinner | $125 |
| Rideshare/Transportation | $150 |

# How to keep track of finances

# Understanding finances

## Keeping track of finances can help you:

- Budget for the future
- Plan for unexpected expenses
- Not spend more money than you earn
- Pay off your debt sooner
- Stay on track with savings goals

# Understanding finances (continued)

## Getting yourself organized

### Use a notebook or spreadsheet

- Write down expenses & income
- Keep a list of every time you spend money
- Track your spending against your budget

### Use envelopes

- Label 3 envelopes "needs," "wants" and "savings."
- Put income into the designated envelopes (based on the 50/30/20 rule).
- When the "needs" or "wants" envelopes are empty for the month, you're finished spending.

### Use an app

- There are many available apps to track spending, including ones that can link automatically to your bank accounts.

# Next steps

- Take-home activity
- Scan **QR code** for direct access
- Continue building your knowledge at **edwardjones.com/financialfitness**

# Any questions?

Please be sure to complete your seminar evaluation form.